

CANADIAN PIONEER OILS LTD. 1981

CANADIAN PIONEER OILS LTD.

ANNUAL REPORT 1981



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## CORPORATE INFORMATION

### OFFICERS AND DIRECTORS

**Perry S. Davids**, Bragg Creek, Alberta  
President and Director

**Thomas C. Riddell**, Calgary, Alberta  
Secretary-Treasurer and Director

**David H. Erickson**, Calgary, Alberta  
Vice President and Director

**Bruce R. Libin**, Calgary, Alberta  
Director

### Head Office

404, 525-11th Avenue S.W.  
Calgary, Alberta T2R 0C9

### Subsidiary Company

Frontier Canadian Oils

### Auditors

Miller, McClelland & Co.  
1603-10th Avenue S.W.  
Calgary, Alberta

### Legal Counsel

Burnet, Duckworth & Palmer  
Esso Plaza  
East Tower 32nd Floor  
425 1st Street S.W.  
Calgary, Alberta T2P 3L8

### Banker

The Royal Bank of Canada

### Registrar and Transfer Agent

The Canada Trust Company  
505 3rd Street S.W.  
Calgary, Alberta

### Stock Exchange Listing

The Alberta Stock Exchange



## SHAREHOLDERS' REPORT

The Board of Directors is pleased to present this report on the activities of Canadian Pioneer Oils Ltd. during the past year.

Your Company's land acquisition program has once again this year produced remarkable results. In Alberta, emphasis has been placed on land in low risk areas which are subject to a gas contract. Company land holdings in Alberta have increased from 23,500 net acres in 1980 to 39,800 net acres as of November 1, 1981. Approximately 85% of your Company's Alberta holdings are in a gas contract area.

More emphasis was placed on the United States last year with a dramatic increase in land holdings from 6700/300, Gross/Net to 28,000/4,000 Gross/Net to November 1, 1981.

Your Company's drilling activity in the past year has resulted in 13 gaswells and 3 oil discoveries, with 6 wells abandoned, a success rate of 73%.

It has been your Company's objective since the beginning to establish areas of interest where reserves can be placed on-stream. As a result, 5 gaswells were brought into production in March, 1981. Canadian Pioneer Oils Ltd. now has an interest in 6 producing gaswells in Alberta with the potential to place at least 15 more wells on-stream during 1982. In the United States at least 3 oil and gas wells will be placed on-stream during 1982.

Capital expenditures for the fiscal year 1981 were \$1,286,000.00 compared to \$674,000.00 for the previous period. Joint Venture partners spent in excess of 1 million dollars during 1981, bringing gross expenditures to \$2,327,000.00. Pioneer's net expenditure on lease bonuses was \$791,582.00

and net expenditure on exploration and development was \$495,011.00.

Production revenue of \$203,000.00 represents production from 6 wells of which 5 wells were on-stream for only four months of the fiscal period. Production revenue is expected to increase dramatically in 1982, as additional wells are placed on-stream in both Canada and the United States.

Your Company successfully completed a public offering of 10% cumulative redeemable first preference shares. These shares will be convertible, at the holders option, into common stock at any time up to June 30, 1988.

This offering provided the treasury with \$525,000.00 which was used to retire a portion of the bank debt.

The forthcoming year promises to be a turnaround period for your Company. Production revenues are expected to increase substantially while your Company's land holdings will undoubtedly expose us to increased drilling activity.

The Board of Directors would like to take this opportunity to congratulate our dedicated, hard-working staff on a job well done.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Perry S. Davids', with a stylized flourish at the end.

Perry S. Davids  
President







## LAND ACTIVITIES

UNIVERSITY OF ALBERTA  
FACULTY OF BUSINESS ADMINISTRATION  
AND COMMERCE

FRANCIS G. WINSPEAR COLLECTION

### ALBERTA

During 1981, Pioneer substantially increased its land holdings in East Central and Southern Alberta. Your Company maintains an aggressive day to day leasing program concentrating in areas where existing gas purchase contracts are in place.

It has been and continues to be the general practice of Pioneer to acquire the land and then farmout to a second party with a gas purchase contract. This second party will earn an interest in certain of Pioneer's lands in return for drilling wells thereon at their sole expense.

Your Company now has representation in excess of 200 spacing units which may be subject to an existing gas purchase contract. This attractive land position gives your Company exposure to an on-going active drilling program allowing Canadian Pioneer to negotiate drilling deals on favourable terms.

### UNITED STATES

Canadian Pioneer has acquired lands by purchasing with industry partners or participating in farmins in the state of Texas, Montana and New Mexico.

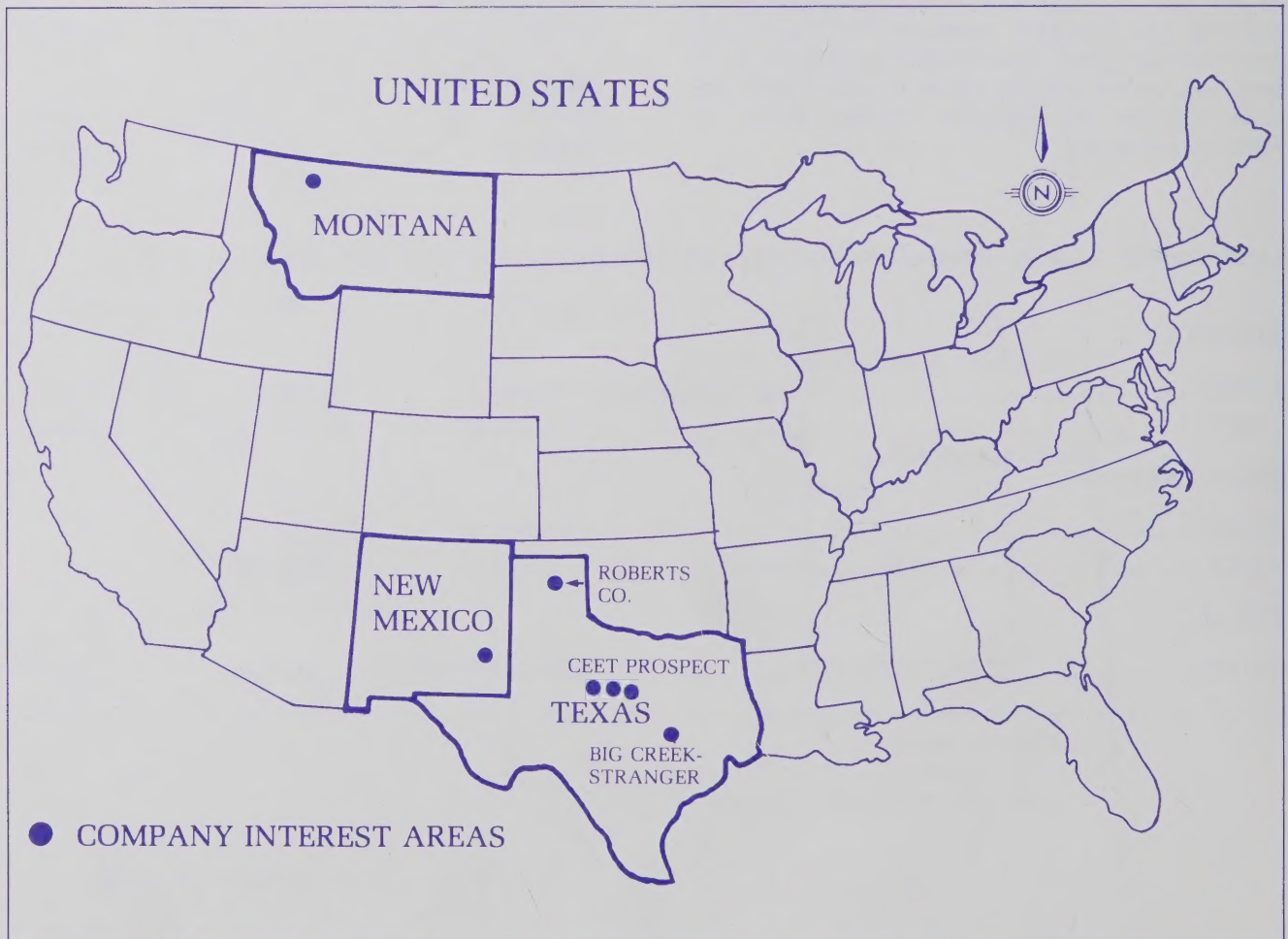
|                       | ACREAGE          |                 |
|-----------------------|------------------|-----------------|
|                       | GROSS            | NET             |
| <b>TEXAS</b>          |                  |                 |
| Falls County .....    | 11,055.46        | 1,904.46        |
| Roberts County .....  | 9,925.00         | 467.45          |
| Callahan County ..... | 838.00           | 35.62           |
| Eastland County ..... | 2,621.00         | 111.39          |
| Taylor County .....   | 520.00           | 22.10           |
| <b>MONTANA</b>        |                  |                 |
| Glacier County .....  | 3,114.00         | 1,557.00        |
| <b>NEW MEXICO</b>     |                  |                 |
| Lea County .....      | 160.00           | 26.66           |
| <b>TOTALS</b> .....   | <b>28,233.46</b> | <b>4,124.68</b> |

Land holdings since the issue of our December 14, 1979 Prospectus have increased as follows:

|                      | <u>1981</u> | <u>1980</u> | <u>1979</u> |
|----------------------|-------------|-------------|-------------|
| <b>ALBERTA</b>       |             |             |             |
| GROSS .....          | 91,806.17   | 60,500.00   | 17,745.55   |
| NET .....            | 39,648.65   | 23,500.00   | 6,199.02    |
| <b>UNITED STATES</b> |             |             |             |
| GROSS .....          | 28,233.46   | 6,762.00    | 0           |
| NET .....            | 4,124.68    | 328.50      | 0           |
| <b>TOTAL</b>         |             |             |             |
| GROSS .....          | 120,039.63  | 67,262.00   | 17,745.55   |
| NET .....            | 43,773.33   | 23,828.50   | 6,199.02    |

## DRILLING ACTIVITY SUMMARY

| <u>YEAR</u>             | <u>CANADA</u> |                | <u>UNITED STATES</u> |            |                | <u>TOTAL</u> | <u>PERCENT SUCCESS</u> |
|-------------------------|---------------|----------------|----------------------|------------|----------------|--------------|------------------------|
|                         | <u>GAS</u>    | <u>D&amp;A</u> | <u>OIL</u>           | <u>GAS</u> | <u>D&amp;A</u> |              |                        |
| 1979                    | 7             | 1              | —                    | —          | —              | 8            | 88 %                   |
| 1980                    | 13            | 5              | —                    | 2          | 1              | 21           | 71 %                   |
| 1981 TO<br>NOV. 6, 1981 | 9             | 4              | 3                    | 4          | 2              | 22           | 73 %                   |
| TOTAL TO<br>DATE        | 29            | 10             | 3                    | 6          | 3              | 51           | 75 %                   |







## EXPLORATION AND DEVELOPMENT ACTIVITIES

### ALBERTA

From November 1, 1980 to October 31, 1981, your Company participated in 14 wells in Alberta, with 9 of these wells being completed as gaswells. All the wells were drilled in East Central Alberta and all gaswells are subject to a gas contract. It is anticipated that Company activity will increase in East Central Alberta during the next year. This increase in activity should benefit the Company, as all wells the Company participates in are subject to a gas contract. The Company has extensive land holdings in East Central Alberta on which to develop many prospects for gas. Four areas in which your Company is an active participant in exploration and development activities are detailed below.

#### INLAND AREA

Your Company has interests averaging 20% in 11,520 gross acres. Pioneer has participated in a total of 8 wells of which 7 have been completed as successful gaswells and 1 has been abandoned. Pioneer expects to participate in 2 additional wells to be drilled by January, 1982. Pioneer will have an average interest of 20% in these 10 wells. The majority of the wells completed are expected to go on-stream by July 1, 1982. In addition, 1 well in which Pioneer has a 32.5% working interest went on-stream in August, 1981 at a production rate of 0.25 MMcf per day. Pioneer is still actively acquiring lands in this area and further drilling activities are anticipated during 1982.

#### KELSEY AREA

Your Company has interests averaging 15% to 25% in 5,120 gross acres in this area. Pioneer has participated in drilling a total of 7 wells from June, 1980 to November, 1981, of which 3 are gaswells and 4 are abandoned wells. Two of these wells are currently on-stream and together produce at rates varying between 0.7 MMcf per day and 1.6 MMcf per day. Pioneer has a 15% working interest in these 2 wells. One other well is potentially capable of production and may go on-stream as soon as more capacity is available in gas plants in the area or a new plant is built. Two more wells are expected to be drilled by the end of January, 1982.

#### CHIPMAN-PINEDALE AREA

Pioneer has participated in the drilling of four wells in this area in 1981, resulting in the completion of three gaswells. Your Company has interests averaging 38% in 12,640 gross acres. During 1982

we expect to participate in another six wells in the area. All wells being drilled are subject to a gas contract and are expected to be placed on-stream as pipelines and gas processing facilities become available in the area.

#### WARWICK-PLAIN AREA

Your Company has interests averaging 35% in 3,360 gross acres. The Company participated in the drilling of three wells in this area in 1981, resulting in three gas completions. Additional drilling is planned for 1982, with at least four more wells being drilled. Gas discovered on Company lands is contracted and expected to go on-stream during 1982.

### UNITED STATES

Your Company significantly increased its exploration and development activities in the United States during 1981. Since November 1, 1980 your Company participated in the drilling of 10 wells in Texas, resulting in 5 gaswells, 3 potential oilwells, and 2 dry holes. Acreage was also acquired in Texas, New Mexico and Montana; where the Company may undertake exploration during the next year. Three areas in Texas in which the Company has interests are detailed below.

#### ROBERTS COUNTY, TEXAS

The Company's most significant exploration program in the United States is located in the Texas Panhandle in Roberts County, Texas. Pioneer holds a 5% working interest in 3,560 gross acres north of the Canadian River in Roberts County. An 8,600 foot Mississippian test, Brainard 1-7, drilled in October of 1980, is a completed dual zone gas-condensate well, capable of production from the Morrow Sands. It is expected that production from this well will begin in January, 1982 at about 0.75 MMcf per day. Tenneco is the operator for all the blocks in Roberts County in which the Company is now participating. During 1981, south of the Canadian River in Roberts County, the Company participated in four wells which are located on a 6,400 gross acre block. The Company has a 7% working interest before payout and a 3.5% working interest after payout in the Morrison 2-8 well spacing unit. The Morrison 2-8 well flowed at a rate of 2.06 MMcf per day and 66 barrels of oil per day at 560 lbs. flowing tubing pressure from the Cherokee Sands. An 8,600 foot development well, Morrison 3-8, in which Pioneer has a 3.5% work-



ing interest, was completed as a successful offset to the Morrison 2-8 discovery well, and it flowed at a rate of 2.23 MMcf per day and 127 barrels of oil per day at 1,260 lbs. flowing tubing pressure from the Cherokee formation. Two additional wells were drilled on the block resulting in another Cherokee producer and a well that appears to have hydrocarbon potential in a shallower zone. Several development wells are to be drilled during 1982. Three wells are expected to be on production in January, 1982, and further successful wells will also be subject to a gas contract.

#### CEET PROSPECT, TEXAS

During 1981, your Company acquired a 4.25% working interest in three separate prospects in three contiguous counties in Texas. The first prospect drilled was in Eastland County on a 2,621 acre block. Three wells were drilled resulting in one

gaswell and two potential oilwells. Further completion work is needed on the wells to fully evaluate their potential. In Taylor County, on a 520 acre block, a recently drilled 5,000 foot exploratory well was cased as a potential oilwell from several zones. The third prospect drilled was in Callahan County on a 838 acre block, where a 4,346 foot exploratory well was abandoned. Further drilling is anticipated during 1982 on several of the prospects.

#### BIG CREEK-STRANGER PROSPECT, TEXAS

Your Company acquired a sixteen and two-thirds interest in 10,300 contiguous acres in Falls and Limestone Counties, Texas in 1981. This acreage is currently being evaluated by geophysical methods with the view to having the property drilled during 1982. The area has multiple zone potential for oil and gas. Your Company has also acquired a 25% interest in 750 acres in scattered acreage blocks in Falls County.

### PRODUCTION

Gas production in Alberta increased dramatically for the Company during 1981 with 5 new gaswells put on production in the Kelsey, Viking, Ranfurly and Inland areas. At present the Company has an interest in six producing gaswells in Alberta resulting in approximately 0.5 MMcf per day net gas production to the Company and a further eighteen gaswells shut-in and subject to a contract. By November, 1982 the Company expects to have an additional fifteen gaswells producing that should result in a significant increase in cash flow.

In the United States we expect that three wells in Roberts County, Texas will go on production in January, 1982 producing at an estimated rate of 3.0 MMcf per day and 150 bbls oil per day. Increased production should be possible later in 1982 as more wells are drilled and compression facilities are added. In Eastland and Taylor Counties, Texas the Company expects to have some oil production in 1982, with some possible gas sales in this area as well.

### RESERVES

The following table lists the Company reserves as established by independent engineers to February 1, 1981 compared to an earlier evaluation of September 1, 1979.

| DATE OF EVALUATION | NET COMPANY<br>CANADIAN RESERVES     | NET COMPANY<br>U.S. RESERVES         |  |
|--------------------|--------------------------------------|--------------------------------------|--|
|                    | <u>GAS</u>                           | <u>GAS</u>                           | <u>OIL</u>                             |
| September 1, 1979  | 1.81 BCF proven<br>0.46 BCF probable | Nil                                  | Nil                                    |
| February 1, 1981   | 4.15 BCF proven<br>0.34 BCF probable | 0.27 BCF proven<br>0.56 BCF probable | 3000 bbls proven<br>5933 bbls probable |

The comparison of the above figures reveals a 235% increase in reserves between reports. An additional seven gaswells have been drilled in Alberta since February 1, 1981 which will significantly increase gas reserves. In the United States the drilling of seven new wells since the last evaluation will also add new reserves of oil and gas, as well as converting probable reserves into proven reserves.



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**MILLER, MCCLELLAND & CO.**

CHARTERED ACCOUNTANTS

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## AUDITORS' REPORT

To the Shareholders of  
Canadian Pioneer Oils Ltd.

Scope { We have examined the consolidated balance sheet of Canadian Pioneer Oils Ltd. as at June 30, 1981, and the consolidated statements of loss, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Opinion { In our opinion, these consolidated financial statements present fairly the financial position of the company as at June 30, 1981 and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta  
October 29, 1981.

*Miller, McClelland & Co.*  
Chartered Accountants



# CONSOLIDATED BALANCE SHEET

AT JUNE 30, 1981

(with June 30, 1980 figures for comparison)

## ASSETS

|   | 1981           | 1980           |
|---|----------------|----------------|
| ASSETS  |                |                |
| CURRENT   |                |                |
| Cash .....                                      | 7,642          | 40             |
| Accounts receivable .....                       | 251,739        | 132,955        |
| Short-term deposits .....                       | —              | 500,000        |
| Prepays .....                                   | 22,291         | —              |
|   | <u>281,672</u> | <u>632,995</u> |
| LONG-TERM DEPOSITS .....                        | 20,000         | 20,000         |
| ADVANCES TO AFFILIATED COMPANY .....            | 736            | 736            |
| FIXED (Notes 1(c) and 2) .....                  | 183,396        | 157,225        |
| OIL AND GAS PROPERTIES (Notes 1(b) and 3) ..... | 1,927,923      | 747,257        |

ON BEHALF OF THE BOARD

Director

Director

2,413,727

1,558,213

See accompanying notes.



## LIABILITIES

|                                    | 1981             | 1980           |
|------------------------------------|------------------|----------------|
| LIABILITIES                        |                  |                |
| CURRENT                            |                  |                |
| Bank indebtedness (Note 4) .....   | \$ 1,476,021     | \$ 338,404     |
| Accounts payable and accrued ..... | 148,958          | 83,758         |
| Taxes payable .....                | 10,533           | 2,482          |
|                                    | <u>1,635,512</u> | <u>424,644</u> |
| DEFERRED PRODUCTION REVENUE .....  | <u>12,482</u>    | <u>—</u>       |

## SHAREHOLDERS' EQUITY

### SHARE CAPITAL (Note 5)

#### Authorized

5,000,000 Class A voting common shares  
without nominal or par value, for a  
maximum total consideration of  
\$5,000,000

1,000,000 First preference shares  
with a par value of \$25 per share

#### Issued

1,473,003 Class A common shares

(1980 — 1,383,003) ..... 1,454,505 1,380,705

DEFICIT ..... (688,772) (247,136)

765,733 1,133,569

\$ 2,413,727 \$ 1,558,213

See accompanying notes.



# CONSOLIDATED STATEMENT OF LOSS

FOR THE YEAR ENDED JUNE 30, 1981  
(with prior years' figures for comparison)

|   | 1981           | 1980           |
|---|----------------|----------------|
| REVENUE                                   |                |                |
| Production .....                          | 203,409        | 24,086         |
| Interest .....                            | 11,187         | 36,605         |
|   | <u>214,596</u> | <u>60,691</u>  |
| EXPENSES                                  |                |                |
| Administration .....                      | 312,461        | 207,634        |
| Depletion .....                           | 10,669         | 573            |
| Depreciation and amortization .....       | 22,754         | 17,709         |
| Dry holes and abandonments .....          | 95,258         | 68,671         |
| Freehold royalty payments .....           | 64,660         | —              |
| Interest expense .....                    | 89,694         | 4,710          |
| Lease rental payments .....               | 29,621         | 9,112          |
| Well operating and processing costs ..... | 29,420         | —              |
|   | <u>654,537</u> | <u>308,409</u> |
| Loss from operations .....                | <u>439,941</u> | <u>247,718</u> |
| OTHER ITEMS                               |                |                |
| Loss (gain) on disposal of fixed assets   | (350)          | 1,018          |
| Foreign exchange loss (gain) .....        | 2,045          | (1,600)        |
|   | <u>1,695</u>   | <u>(582)</u>   |
| LOSS FOR THE YEAR .....                   | <u>441,636</u> | <u>247,136</u> |
| LOSS PER SHARE (Note 8) .....             | <u>30¢</u>     | <u>21¢</u>     |

See accompanying notes.





# CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED JUNE 30, 1981  
(with prior year's figures for comparison)

|                                  | 1981    | 1980    |
|----------------------------------|---------|---------|
| Balance, beginning of year ..... | 247,136 | —       |
| Loss for the year .....          | 441,636 | 247,136 |
| Balance, end of year .....       | 688,772 | 247,136 |

See accompanying notes.



# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED JUNE 30, 1981  
(with prior year's figures for comparison)

|   | 1981               | 1980             |
|---|--------------------|------------------|
| <b>SOURCE OF WORKING CAPITAL</b>                          |                    |                  |
| Issuance of share capital .....                           | \$ 73,800          | \$ 1,420,500     |
| Less: Costs of issuing share capital .....                | —                  | (92,296)         |
| Share subscriptions received .....                        | —                  | (214,300)        |
|   | <u>73,800</u>      | <u>1,113,904</u> |
| Proceeds on disposal of fixed assets .....                | 350                | 26,050           |
| Deferred production revenue .....                         | <u>12,482</u>      | <u>—</u>         |
| Total source of working capital .....                     | <u>86,632</u>      | <u>1,139,954</u> |
| <b>APPLICATION OF WORKING CAPITAL</b>                     |                    |                  |
| <b>Operations</b>   |                    |                  |
| Loss for the year .....                                   | 441,636            | 247,136          |
| <b>Items not representing a change in working capital</b> |                    |                  |
| Deferred overhead expenses .....                          | —                  | (39,226)         |
| Depreciation, amortization and depletion .....            | (33,423)           | (18,282)         |
| Dryholes and abandonments .....                           | (95,258)           | (68,671)         |
| Gain (loss) on disposal of fixed assets .....             | 350                | (1,018)          |
|   | <u>313,305</u>     | <u>119,939</u>   |
| Purchase of long-term deposits .....                      | —                  | 17,500           |
| Advances to affiliate .....                               | —                  | 736              |
| Long-term indebtedness .....                              | —                  | 40,290           |
| Additions to fixed assets .....                           | 48,925             | 142,079          |
| Additions to oil & gas properties .....                   | 2,327,128          | 1,817,576        |
| Less: Recovery of expenditures .....                      | 1,040,535          | 1,143,584        |
|   | <u>1,286,593</u>   | <u>673,992</u>   |
| Total application of working capital .....                | <u>1,648,823</u>   | <u>994,536</u>   |
| <b>INCREASE (DECREASE) IN WORKING CAPITAL</b>             |                    |                  |
| FOR THE YEAR .....  | (1,562,191)        | 145,418          |
| Working capital, beginning of year .....                  | <u>208,351</u>     | <u>62,933</u>    |
| <b>WORKING CAPITAL (DEFICIENCY),</b>                      |                    |                  |
| END OF YEAR .....   | <u>(1,353,840)</u> | <u>208,351</u>   |

See accompanying notes.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 1981

## 1. ACCOUNTING POLICIES

### (a) Principles of Consolidation

The consolidated financial statements include the accounts of Canadian Pioneer Oils Ltd. and its United States subsidiary, Frontier Canadian Oils.

Accounts of the foreign operations are stated in Canadian dollars, using the temporal method of accounting whereby the assets and liabilities are translated in a manner that retains the particular basis of valuation. Cash and amounts receivable or payable are translated at the current rate of exchange at the balance sheet date. For other assets and liabilities, their particular basis of valuation determines the translation rate: items carried at past prices are translated at historical rates and items carried at current prices are translated at the current rate. Translation of revenue and expense items, other than depreciation and depletion, is at the average rate of exchange for the year.

### (b) Oil and Gas Properties

The company follows the successful efforts method of accounting for oil and gas properties. Costs applicable to successful wells and acquisition costs of undeveloped oil and gas properties are capitalized. Cost of abandoned leases and dry hole costs are charged against income in the year of abandonment. Geological and geophysical costs that do not result in the acquisition or retention of acreage and the cost of lease rentals, are charged against income in the year incurred.

Producing oil and gas properties are depleted on a unit-of-production method based on estimated proven oil and gas reserves as determined by independent petroleum engineers.

### (c) Fixed Assets and Depreciation

Fixed assets are stated at acquisition cost. Depreciation on automotive equipment is being provided using the declining-balance basis, and on all other fixed assets using the straight-line basis or unit of production, at the rates indicated in Note 2.

### (d) Joint Venture Accounting

All of the company's exploration, development and production activities related to oil and gas are conducted jointly with others, and accordingly the accounts reflect only the company's proportionate interest in such activities.

### (e) Production revenue

Production revenue is net of crown royalties and taxes.

## 2. FIXED ASSETS

|                                  | Rate                     | Cost           | Accumulated<br>Depreciation<br>Amortization<br>or Depletion | Net Book Value        |                |
|----------------------------------|--------------------------|----------------|---|-----------------------|----------------|
|                                  |                          |                |   | 1981                  | 1980           |
| Automotive .....                 | 30 %                     | 51,533         | 18,409  | <b>33,124</b>         | 45,271         |
| Furniture and<br>equipment ..... | 10 %                     | 31,721         | 5,750   | <b>25,971</b>         | 31,094         |
| Leasehold<br>improvements ..     | 5 yrs.                   | 30,809         | 7,601   | <b>23,208</b>         | 20,162         |
| Gas gathering<br>systems .....   | expected<br>life of well | 91,706         | 4,703   | <b>87,003</b>         | 60,698         |
| Well<br>equipment .....          | expected<br>life of well | 14,590         | 500   | <b>14,090</b>         | —              |
|                                  |                          | <u>220,359</u> | <u>36,963</u>   | <u><b>183,396</b></u> | <u>157,225</u> |

### 3 . OIL AND GAS PROPERTIES

|   | Cost             | Accumulated<br>Depletion | Net Book Value          |                |
|---|------------------|--------------------------|-------------------------|----------------|
|   |                  |                          | 1981                    | 1980           |
| Developed petroleum and<br>natural gas properties .....   | 618,241          | 6,039                    | <b>612,202</b>          | 220,192        |
| Undeveloped petroleum and<br>natural gas properties ..... | 1,315,721        | —                        | <b>1,315,721</b>        | 527,065        |
|   | <u>1,933,962</u> | <u>6,039</u>             | <u><b>1,927,923</b></u> | <u>747,257</u> |

### 4. BANK INDEBTEDNESS

|                                 | 1981                    | 1980           |
|---------------------------------|-------------------------|----------------|
| Bank indebtedness consists of:  |                         |                |
| Bank overdrafts .....           | <b>256,021</b>          | 98,404         |
| Demand bank loan — 21 ¼ % ..... | <b>1,220,000</b>        | 240,000        |
|                                 | <u><b>1,476,021</b></u> | <u>338,404</u> |

The bank loan is secured by a general assignment of accounts receivable and an agreement respecting hydro-carbons.

### 5. SHARE CAPITAL

(a) The authorized capital of the Company has been increased by the creation of 1,000,000 First Preference Shares with a par value of \$25.00 per share, which may be issued from time to time in one or more series.

On June 29, 1981 the Directors constituted 100,000 First Preference Shares as the initial series thereof and designated them as 10% Cumulative Redeemable convertible First Preference Shares, Series A.

#### (b) Issued

The changes in the issued and outstanding shares of the Company for the year ended are as follows:

|  | #                | \$               |
|--|------------------|------------------|
| Balance, beginning of year .....   | 1,383,003        | 1,380,705        |
| (Additions)  |                  |                  |
| Issued under an option agreement dated<br>July 20, 1979 to three directors ..... | 90,000           | 73,800           |
| Balance, end of year .....   | <u>1,473,003</u> | <u>1,454,505</u> |

By resolution of the directors, dated June 9, 1980, 300,000 of the authorized common shares are reserved for an employee incentive stock option plan. As at June 30, 1981 options for 20,000 shares at an average of \$3.51 per share, had been issued.

### 6. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The remuneration paid during the year to three senior officers totalled \$99,000.

No remuneration was paid to the directors in their capacity as directors.

### 7. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform with current year's presentation.

### 8. LOSS PER SHARE

The loss per common share was calculated by dividing the weighted average shares outstanding during the year, into the loss for the year.



9. LONG-TERM COMMITMENTS

The company occupies its premises under a 5-year lease agreement providing a yearly rental of \$16,379 until 1985.

10. INCOME TAXES

- (a) The company has incurred accumulated losses of \$391,196 for income tax purposes, which are available to reduce taxable income in future years until:

|            |                |
|------------|----------------|
| 1984 ..... | 39,226         |
| 1985 ..... | 181,894        |
| 1986 ..... | <u>170,076</u> |
|            | <u>391,196</u> |

- (b) At June 30, 1981, depreciation and amortization recorded in the accounts exceeded the amount claimed for income tax purposes, resulting in a net deferred tax charge in the amount of \$17,003, which is not included in the financial statements.







